



City of Richmond

Report to Committee

To: Finance Committee

Date: June 19, 2013

From: Jerry Chong, CA
Director, Finance

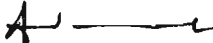
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Re: Long Term Financial Management Strategy Update 2013

Staff Recommendation

That the Long Term Financial Management Strategy Update 2013 report from the Manager, Financial Reporting, dated June 19, 2013 be received for information.

Jerry Chong, CA
Director of Finance
(4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY DIRECTORS	INITIALS: DW
REVIEWED BY CAO (DEPUTY)	INITIALS: DE

Staff Report

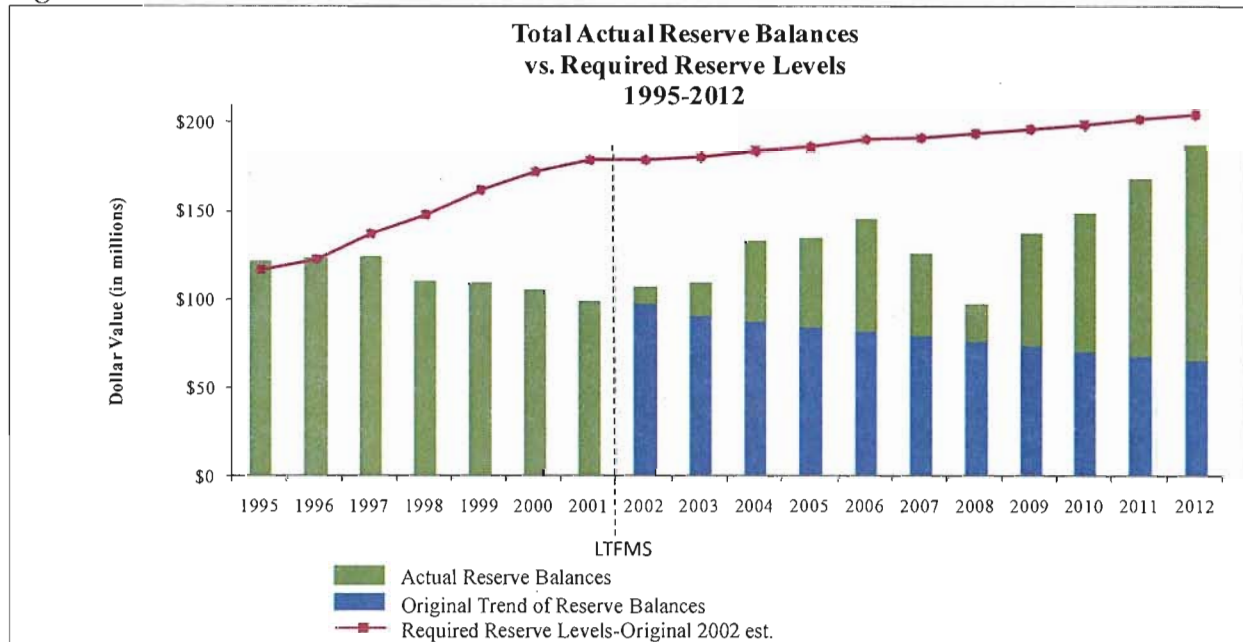
Origin

The purpose of this report is to provide an information update concerning Council’s Policy 3707 Long Term Financial Management Strategy (LTFMS). It has been 10 years since the policy was implemented, therefore, it is a prime opportunity to evaluate what has been achieved since the inception of the policy.

Background

In mid-2002, after a review of the trend of the City’s reserves (blue bars in *Figure 1*), the CAO directed staff to prepare a plan to address the long term financial sustainability of the City. Up to that point in time, the City’s long term financial direction was driven by the annual budget decisions which in turn were driven by Council’s desire to keep the tax impacts low. In the mid to late 1990’s for instance, the City absorbed approximately \$5.7 million in loss of grants from the Province, incurred debt, and absorbed growth and plant increases, while keeping tax increases in the range of zero to 1.8%. The consequence was the gradual deterioration of the City’s reserves. Therefore, Council adopted a strategy that addressed the long term financial viability of the City on October 15, 2002.

Figure 1



In September 2003, Council decided to focus on *'enhancing the City's economic well being for present and future generations as part of the well managed component of the vision without sacrificing the components of the vision which affect overall liveability of the community'* and approved the following points in the LTFMS policy:

1. Tax Revenue - Tax increases will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.
2. Gaming Revenue - Gaming revenues will go directly to the capital reserves, the grants program and a community legacy project reserve.
3. Alternative Revenues & Economic Development - Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.
4. Changes to Senior Government Service Delivery - Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year's taxes above and beyond the CPI and infrastructure percentage contribution.
5. Capital Plan - Ensure that long term capital funding for infrastructure (e.g. parks, trails, facilities, roads etc.) is in place in order to maintain community liveability and generate economic development.
6. Cost Containment - Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given, and that a continuous review be undertaken of the relevancy of the existing operating and capital costs to ensure that the services, programs and projects delivered continue to be the most effective means of achieving the desired outcomes of the City's vision.
7. Efficiencies & Service Level Reductions - Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.
8. Land Management – Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City's land inventory. Any funds in excess of such proceeds may be used as directed by Council.
9. Administrative - As part of the annual budget process the following shall be undertaken:
 - all user fees will be automatically increased by CPI;
 - the financial model will be used and updated with current information, and
 - the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceed them.
10. Debt Management - Utilize a "pay as you go" approach rather than borrowing for financing infrastructure replacement.

Analysis

Current financial status

As a result of the LTFMS and other factors, the City (including the Library and Oval) is in a stronger financial position as shown by the change in the Audited Statement of Financial Position from December 31, 2002 to December 31, 2012.

Figure 2 - Statement of Financial Position as at December 31st (in \$000's)

	2012	2002*	Change \$	Change %
Financial Assets				
Cash and Investments	\$ 640,593	\$ 246,576	\$ 394,017	160%
Dev't Cost Charges (DCC)	12,923	7,042	5,881	84%
Other Assets	35,085	23,408	11,677	50%
Total Assets	688,601	277,026	411,575	149%
Liabilities				
Accounts Payable/Accruals	75,325	42,740	32,585	76%
Other Liabilities	78,082	18,361	59,721	325%
DCC Payable	62,547	37,290	25,257	68%
Long-Term Debt	3,488	42,709	(39,221)	(92%)
Total Liabilities	219,442	141,100	78,342	56%
Net Financial Assets	469,159	135,926	333,233	245%
Capital Assets and Inventory	1,834,849	922,940	911,909	99%
Net Position	2,304,008	1,058,866	1,245,142	118%
Financial Equity				
Reserves**	295,001	107,709	187,292	174%
Surplus/Appropriated Surplus***	181,982	73,526	108,456	148%
Capital Equity	1,827,025	877,631	949,394	108%
	2,304,008	1,058,866	1,245,142	118%

Notes: *2002 is used as the base year for comparison as the LTFMS was implemented in 2003.

**Reserve balances above include committed amounts.

***Includes surplus, appropriated surplus, obligations to be funded and other equity.

Highlights of changes over the period December 31, 2002 to December 31, 2012:

- Cash and investments have increased by \$394 million (160%)
- Long term debt has been reduced by \$39 million (92%)
- Reserves have increased by \$187 million (174%)
- Surplus / Appropriated Surplus has increased by \$108 million
- Capital Equity has grown by \$949 million

Performance Measurement

A simple report card was also developed to track the actual results of the LTFMS in a clear and concise manner, particularly, as they relate to the ten Council established policies and Council approved targets in 2003. Note that the LTFMS was implemented midway into 2003, the full year impact of the changes are not evident until 2004.

Figure 3 – LTFMS Scorecard

Policy	Analysis																																																																													
<p>1. Tax Revenue</p> <p>CPI + 1.0% per year in the future to be transferred to the reserves.</p>	<table border="1" data-bbox="475 569 1365 1014"> <thead> <tr> <th>Year</th> <th>CPI¹</th> <th>Base Increase</th> <th>Additional Levels</th> <th>Reserves²</th> <th>Total Increase</th> </tr> </thead> <tbody> <tr><td>2003</td><td>2.4%</td><td>2.90%</td><td>0.45%</td><td>1.00%</td><td>4.35%</td></tr> <tr><td>2004</td><td>2.2%</td><td>2.51%</td><td>0.76%</td><td>0.47%</td><td>3.74%</td></tr> <tr><td>2005</td><td>2.0%</td><td>1.25%</td><td>0.73%</td><td>0.00%</td><td>1.98%</td></tr> <tr><td>2006</td><td>2.0%</td><td>2.01%</td><td>0.97%</td><td>1.00%</td><td>3.98%</td></tr> <tr><td>2007</td><td>2.0%</td><td>1.65%</td><td>1.18%</td><td>0.82%</td><td>3.65%</td></tr> <tr><td>2008</td><td>2.1%</td><td>2.06%</td><td>1.86%</td><td>0.00%</td><td>3.92%</td></tr> <tr><td>2009</td><td>2.3%</td><td>2.51%</td><td>0.46%</td><td>0.00%</td><td>2.97%</td></tr> <tr><td>2010</td><td>1.5%</td><td>3.45%</td><td>0.00%</td><td>0.00%</td><td>3.45%</td></tr> <tr><td>2011</td><td>1.5%</td><td>2.95%</td><td>0.00%</td><td>0.00%</td><td>2.95%</td></tr> <tr><td>2012</td><td>1.7%</td><td>1.86%</td><td>0.12%</td><td>1.00%</td><td>2.98%</td></tr> <tr><td>2013</td><td>2.0%</td><td>1.98%</td><td>0.00%</td><td>1.00%</td><td>2.98%</td></tr> </tbody> </table> <p data-bbox="391 1045 1469 1108">- Since the implementation of the LTFMS in 2003, the tax increases have approximated the budgeted CPI increase.</p> <p data-bbox="391 1140 1469 1203">- The increase to reserves was fully met or had a partial increase in over half of the years since the implementation of the LTFMS.</p> <p data-bbox="391 1234 1469 1266">¹ CPI projections as used in annual budget preparation.</p> <p data-bbox="391 1266 1469 1350">² The years beginning in 2008 and through 2011 do not include a 1% increase in taxes for transfer to reserves as the reserves were funded from interest earned on Community Legacy & Land Replacement Reserve as approved by Council.</p>						Year	CPI ¹	Base Increase	Additional Levels	Reserves ²	Total Increase	2003	2.4%	2.90%	0.45%	1.00%	4.35%	2004	2.2%	2.51%	0.76%	0.47%	3.74%	2005	2.0%	1.25%	0.73%	0.00%	1.98%	2006	2.0%	2.01%	0.97%	1.00%	3.98%	2007	2.0%	1.65%	1.18%	0.82%	3.65%	2008	2.1%	2.06%	1.86%	0.00%	3.92%	2009	2.3%	2.51%	0.46%	0.00%	2.97%	2010	1.5%	3.45%	0.00%	0.00%	3.45%	2011	1.5%	2.95%	0.00%	0.00%	2.95%	2012	1.7%	1.86%	0.12%	1.00%	2.98%	2013	2.0%	1.98%	0.00%	1.00%	2.98%
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<p>2. Gaming Revenue</p> <p>Total Casino Revenue - \$10M per year by the 2nd year</p>	<table border="1" data-bbox="699 1421 1127 1801"> <thead> <tr> <th>Year</th> <th>Gaming Revenue</th> </tr> </thead> <tbody> <tr><td>2003</td><td>2,677,766</td></tr> <tr><td>2004</td><td>7,473,423</td></tr> <tr><td>2005</td><td>11,235,495</td></tr> <tr><td>2006</td><td>12,156,385</td></tr> <tr><td>2007</td><td>12,802,448</td></tr> <tr><td>2008</td><td>12,238,903</td></tr> <tr><td>2009</td><td>11,857,389</td></tr> <tr><td>2010</td><td>12,562,983</td></tr> <tr><td>2011</td><td>13,728,072</td></tr> <tr><td>2012</td><td>15,584,840</td></tr> </tbody> </table> <p data-bbox="391 1833 1469 1917">- Gaming Revenue is currently used to fund capital reserves and the community grants program. Council made an exception to the policy on February 27, 2007 and funded 4 RCMP officers with gaming revenue. The revenue met and has surpassed the \$10 million target since 2005.</p>						Year	Gaming Revenue	2003	2,677,766	2004	7,473,423	2005	11,235,495	2006	12,156,385	2007	12,802,448	2008	12,238,903	2009	11,857,389	2010	12,562,983	2011	13,728,072	2012	15,584,840																																																		
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<p>Economic Dev - 1.5% per Year</p>	<p>- The tax base has shown growth each year since the inception of the LTFMS.</p> <p>- There have been a number of expanded alternative revenues such as the following:</p> <ul style="list-style-type: none"> - Sports Field User Fees - Filming revenues - Expanded Pay Parking program to include street meters - RCMP service fees - Tax information fees - Developer fees for planning services - Sale of drawings/GIS data - CCTV Program – Services to development industry - Meeting room rental revenue - Rental/Lease revenue from bus shelters - New rental properties revenue - Microfilm revenue - Media Lab Program Fees - Sponsorship Revenue for major events such as Maritime Festival and Ship to Shore - Bus bench and newspaper box revenue 																																				
<p>Alternative Revenue - \$1M per year by the 5th year</p>																																					
<p>4. Changes to Senior Government Service Delivery</p>	<p>- The RCMP contracts have increased at rates greater than the LTFMS policy of CPI. RCMP increases are highlighted within the annual budget presentations.</p>																																				

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<p>5. Capital Plan</p> <p>No reduction</p>	<table border="1"> <thead> <tr> <th data-bbox="667 302 813 354">Year</th> <th data-bbox="813 302 1057 354">Capital Budget</th> </tr> </thead> <tbody> <tr> <td data-bbox="667 365 813 396">2003</td> <td data-bbox="813 365 1057 396">39,438,000</td> </tr> <tr> <td data-bbox="667 396 813 428">2004</td> <td data-bbox="813 396 1057 428">45,380,000</td> </tr> <tr> <td data-bbox="667 428 813 459">2005</td> <td data-bbox="813 428 1057 459">115,558,000</td> </tr> <tr> <td data-bbox="667 459 813 491">2006</td> <td data-bbox="813 459 1057 491">113,021,000</td> </tr> <tr> <td data-bbox="667 491 813 522">2007</td> <td data-bbox="813 491 1057 522">172,203,000</td> </tr> <tr> <td data-bbox="667 522 813 554">2008</td> <td data-bbox="813 522 1057 554">166,188,000</td> </tr> <tr> <td data-bbox="667 554 813 585">2009</td> <td data-bbox="813 554 1057 585">72,798,000</td> </tr> <tr> <td data-bbox="667 585 813 617">2010</td> <td data-bbox="813 585 1057 617">134,412,000</td> </tr> <tr> <td data-bbox="667 617 813 648">2011</td> <td data-bbox="813 617 1057 648">72,699,000</td> </tr> <tr> <td data-bbox="667 648 813 680">2012</td> <td data-bbox="813 648 1057 680">73,144,000</td> </tr> <tr> <td data-bbox="667 680 813 711">2013</td> <td data-bbox="813 680 1057 711">71,768,000</td> </tr> </tbody> </table> <p>- The 5 Year Capital Plan is updated on an annual basis and projects the anticipated capital program costs and funding availability. The capital budgets have fluctuated over this period due to major facility construction and significant land acquisition. However, the capital budgets have remained above the levels experienced prior to the adoption of the LTFMS.</p>	Year	Capital Budget	2003	39,438,000	2004	45,380,000	2005	115,558,000	2006	113,021,000	2007	172,203,000	2008	166,188,000	2009	72,798,000	2010	134,412,000	2011	72,699,000	2012	73,144,000	2013	71,768,000
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<p>6. Cost Containment</p>	<p>The following are some examples of cost containment or cost recovery programs that have been implemented:</p> <ul style="list-style-type: none"> - Energy retrofit projects to reduce electricity and natural gas usage (approximately 5.6 GWh has been saved through retrofit projects since 2007 which equate to 150 homes annual energy consumption) - Attendance manager and attendance management system - Tree permit revenue to offset Tree Bylaw costs - Accessing Grants ex. Joint Emergency Preparedness Program, Stimulus funds, etc. - RCMP Auxiliary Program - New Fuel management system - Patroller First Responder program - Spill Response Plan - Garbage/Recycling contract - Development of Sidaway disposal site - Road Cut Program to include private utility companies - Use of Trenchless technology for construction purposes - Paint program - Team Clean Janitorial Program - Fire Protection & Life Safety Bylaw with associated fees, fines and avenues for cost recovery - Migrated several Telus Centrex hosted services at community centres / telephone services - Delayed replacements / hirings - Operating expense reduction (i.e. Supplies, Contract, telephone etc) - Finance and Cost Control subcommittee created - Service Level reviews 																								

Policy	Analysis
<p>7. Efficiencies & Service Level Reductions</p> <p>-0.2% per year starting in 3rd year for operating, police & fire efficiencies.</p> <p>No reduction to services</p>	<p>This area is addressed annually during the budget review process. The efficiencies and service level reductions have not been isolated and identified separately.</p> <p>The following are some examples of efficiencies:</p> <ul style="list-style-type: none"> - Retro-commissioning of existing buildings to optimize the energy use - Upgrade of direct digital control systems - Pump station power efficiencies - Purchase of vector truck - Traffic signal conversion to LED - Systems enhancements, AMANDA, PeopleSoft, HCM, etc - Virtualizing computer servers - Use of real time hand held ticketing computers - Lifetime dog tags - Bylaw Adjudication System - LEED Firehalls - Scanning equipment in stores - Multi function Device units (to replace existing photocopy and scanning machines) have been deployed to the various City facilities - Online event management system
<p>8. Land Management</p>	<p>The proceeds from land sales are returned to land related accounts to fund future land acquisitions. The City has been actively acquiring land over the past 10 years.</p>
<p>9. Administrative</p>	<p>Currently where possible user fees are automatically increased by CPI on January 1st of each year by Council through the Consolidated Fees Bylaw.</p> <p>The financial model and strategies are considered when decisions are made. Reports are reviewed with the LTFMS in mind.</p> <p>Every year, the 5YFP is prepared and addresses the tax increase, distribution of Gaming Revenue, isolation of additional levels of service and the capital plan funding sources.</p>
<p>10. Debt Management</p>	<p>Since the inception of the LTFMS no capital project has utilized external borrowing as a funding source.</p> <p>Current debt will be fully repaid by 2014. However, the mix of the current City's infrastructure requirements and low borrowing rates has created some opportunities that will be addressed in a subsequent report to Council.</p>

Overall, the City has met the requirements of the policies with the exception of alternative revenues and tax increase targets in some years. Limiting tax increases to CPI has been difficult without a corresponding reduction in services due to significant cost drivers within municipal expenditures such as policing, union negotiated collective agreements and operating costs of new facilities.

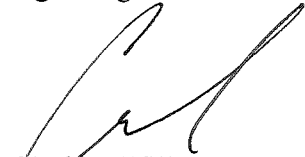
Through the CAO's commitment to value for money, Staff have been directed and are currently performing service level reviews of the departments to further identify potential efficiencies and opportunities.

Financial Impact

None.

Conclusion

The City of Richmond is currently in a strong financial position with increasing reserve balances while having maintained moderate tax increases largely as a result of Council's decisions regarding the LTFMS.



Cindy Gilfillan, CMA
Manager, Financial Reporting